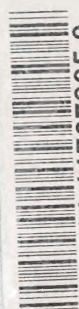


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GEOGRAPHY

Poland is located in Central Europe, east of Germany. The total area of Poland is 312,680 km². The land area is 304,510 km². Poland's land boundaries total 3,114 km; shared with Belarus 605 km, Czech Republic 658 km, Germany 456 km, Lithuania 91 km, Russia (Kaliningrad Oblast) 432 km, Slovakia 444 km and the Ukraine 428 km. Administratively, the country consists of 49 provinces and 2,500 municipalities.

Poland's climate is temperate: with cold, cloudy, moderately severe winters with frequent precipitation; and mild summers with frequent

showers and thunder-showers. The terrain is mostly flat plain with mountains along the southern border. Natural resources include coal, sulphur, copper, natural gas, silver, lead and salt.

Environmental issues include: forest damage due to air pollution and resulting acid rain; improper means for disposal of large amounts of hazardous and industrial waste; severe water pollution from industrial and municipal sources; and severe air pollution that results from emissions of sulphur dioxide from coal-fired power plants, which also drifts into Germany and the Netherlands.



DEMOGRAPHICS

The population of Poland reached 38.7 million in 1995.

Twenty-three percent of the population is under 14 years; 66 percent is between 15 to 64 years; and 11 percent is 65 years and over.

The population growth rate was 0.36 percent in 1995. The birth rate was 13.34 births per 1,000 population, while the death rate was 9.23 deaths per 1,000 population. The net migration rate was minus 0.52 migrants per 1,000 population.

Poland's population will remain relatively constant, with 0.2 percent net growth predicted between 1992-2000. Sixty-two percent of the population is urbanized, a relatively high proportion for Central and Eastern Europe. There is a net internal migration from the countryside into urban centres creating demand for housing in cities. However, the overall population decreased by 0.5 percent between 1990-94, due to international emigration. Demographic indicators are presented in Table 1.

The nationality is Pole and citizens are referred to as Polish. Ethnic divisions include Polish (97.6 percent), German (1.3 percent), Ukrainian (0.6 percent), and Byelorussian (0.5 percent). Religions include Roman Catholic (95 percent), as

well as Eastern Orthodox and Protestant (5 percent). The predominant language spoken is Polish.

Table 1:
Demographic Indicators

Population (million)	38.7
Population Density (1994)	123.0 per km ²
Population by Age	
0-14	23%
15-64	66%
65+	11%
Literacy Rate	99%
Population Growth (% projection 1992-2000)	0.2
Urban Population (% of total, 1994)	62.0
Human Development Index (ranking out of 174 countries, 1992)	51
Cities with over 1 Million Inhabitants (1995)	Warsaw, 1.6 million Katowice, 1.5 million Gdansk, 1.5 million
Growth Rate of Largest City (% 1990-95)	Katowice, 0.6

Sources: MRI, 1996; EIU, 1995; UNDP, 1995

ECONOMIC OVERVIEW

Poland has made remarkable progress since it began its transition to a market economy in 1990. The initial period of the transformation was marked by 600 percent inflation, shrinking GDP, and the highest official unemployment in Central and Eastern Europe. The economy has improved greatly, with inflation declining to 33 percent in 1995 and further reductions are expected. In 1994, GDP finally surpassed the 1990 levels and unemployment has decreased.

In March 1995, a new Prime Minister took control of the leftist government elected in September 1993, and has continued the process of free market economic reform. Poland's government has won support from the international community in recognition of its commitment to disciplined financial policies.

In February 1995, the National Bank of Poland (NBP) took action against inflation by partially floating the Polish zloty—allowing it to fluctuate within a band of plus or minus seven percent around a slowly devaluating average. The purpose of the float was to allow the zloty to appreciate, to reduce exports and thereby to reduce inflationary pressure on the money supply. Effective in January 1995, the NBP also renominated the local

currency (deleting four zeroes to a rate of about 2.3 zlotys to one U.S. dollar).

The progress of Polish economic recovery has occurred in large part due to the sound fiscal and monetary policy consistently maintained by a succession of post-communist governments. Since the beginning of 1993, Poland has remained in compliance with five fiscal and monetary performance criteria established by the International Monetary Fund. Budgetary discipline has been maintained only by means of painful cuts in such socially and politically sensitive areas as defence, health care, and education.

Taxes in Poland are relatively high. The value-added tax is 7 or 22 percent, corporate tax is 40 percent, personal income tax brackets are 21, 33, and 45 percent. Thus, raising taxes is not a viable option for plugging the budget deficit. In recent years, the budget deficit has been financed entirely by domestic borrowing, mostly from banks and to a lesser extent from the public.

The pace of privatization in Poland has been slow. Only about 20 percent of Poland's state enterprises have been privatized since 1990, and about 5,000 remain. One of the main reasons for this slow pace is a relatively weak central government control over the enterprises.

Table 2:
Key Economic Indicators and Projections

	1994	1995	1996	1997 (est.)
Real GDP (% growth)	5.1	4.5		
GNP per capita (US\$ at Purchasing Power Parity (PPP))	5,380			
Average Gross Monthly Wages (US\$)		287.75		
Percentage Growth in GDP	6.0	5.0	5.5 (est.)	5.0
Unemployment Rate (%)	16.0	16.2	14.8 (est.)	13.7
Inflation Rate (%)	32.2	28	22.7 (est.)	17.5
Trade Balance (US\$ billion)	-0.82	-1.4	NAV	
Gross Debt (US\$ billion)	40.9	39.4	39.6	37.7
Foreign Direct Investment (US\$ million)	3,741	5,390 (to June 1995 only)		

NAV - Not Available

Sources: EIU, 1995; MRI, 1996; EBRD, 1995; USDOC, 1996; USEW, 1996

Although unemployment hovers around 15 percent and constitutes a significant social and economic problem, the overall indication is that Poland is in the middle of a sustained economic recovery. Canada is not among the top foreign direct investors in Poland. Leading countries include the U.S., Germany, Italy, the Netherlands and France. Key economic indicators and projections are illustrated in Table 2.

The Polish government continues to transform the economy and has won praise from the international community in recognition of its well disciplined financial policies. Among all the countries in the region, Poland has been among the most advanced in terms of improving the clarity of the business environment for exporters and investors, and has received an advanced rating for its progress by the World Bank. Poland has remained in compliance with European Union (EU), and International Monetary Fund criteria for fiscal and monetary performance.

The zloty was devalued in January 1995 to reduce inflationary pressures on the money supply. Most of the key sectors of the economy, especially manufacturing, have been growing and contributing to Poland's increasing GDP. A 25-percent increase in exports also contributed substantially to GDP growth. Although still in deficit, the Polish trade balance has shown improvement with a dramatic growth in exports and a slightly smaller growth in imports.

World Bank Economic Assessment

Poland was the first Eastern European country to embrace bold policies of economic reform toward a market economy. Now the country is enjoying an economic recovery after the deep recession of 1990-91. Last year Poland experienced strong economic growth with GDP growing by an estimated 7 percent. The recovery has been broad-based, and important gains in productivity have been registered across sectors, with few, but significant, exceptions.

Industrial production, led by strong growth in manufacturing, has been steadily expanding for three years, as have construction and services, particularly in the private sector. At present, Poland has a per capita income of about US\$2,270.

In 1994, industry and construction accounted for about 50 percent of nominal GDP, while agriculture represented less than 7 percent of GDP, and employed 25 percent of the labour force. In 1994-95 Poland experienced faster economic growth than any other large European country.

Poland's overall pattern of growth changed in 1994. In previous years, economic growth was entirely attributable to private sector expansion, which more than compensated for declines in public sector activity but also brought output growth to the public sector. This reflects the ability of part of the state-owned enterprise sector to adapt to the changing economic environment, as well as the beneficial impact of the resurgence of growth in Western Europe. Nevertheless, the private sector remains the most dynamic part of the economy, growing by 15 percent in 1995, while some parts of the public sector continue to be burdened with a number of large loss-making enterprises. By September 1994, some 2,300 state enterprises had been privatized or were undergoing privatization proceedings. The privatization process was revitalized during 1995 due mostly to the implementation of the mass privatization program after three years of delays. Over 500 enterprises, about 12 percent of state-owned assets in manufacturing, were transferred to national investment funds. Revenues from other methods of privatization rose sharply from about US\$600 million in 1994 to over US\$1 billion in 1995.

Banking sector reform is proceeding less smoothly than privatization efforts. Two more treasury-owned commercial banks were privatized in 1995; four out of nine have now been privatized. However, current proposals for bank consolidation, in which two large state-owned banks will absorb four commercial banks, and the subsequent privatization of these large banks raise serious concerns. First, the efficiency of re-structuring under state ownership prior to transfer to pension funds is questionable. Second, the sale of the large consolidated bank to pension funds raises an issue of governance of these banks since the pension funds are likely to be controlled by the state for a potentially long period. In sum, the re-structuring of specialized banks, particularly in agriculture credit and housing finance; the strengthening of the cooperative banking system;

the continued privatization of the treasury-owned commercial banks; and further strengthening of banking supervision constitute the most important tasks ahead.

On the fiscal side, the government's policy was on target in 1995, resulting in an estimated general government deficit below 2.6 percent of GDP. The 1996 budget was based on the prediction of a GDP growth of 5.5 percent, inflation of 17 percent, pension expenditure growth limited to 2.5 percent, and plans for an overall deficit target equivalent to 2.9 percent of GDP. The 1996 budget was to maintain the course of fiscal prudence that has characterized the country over the last three years.

Supported by tight fiscal policies, inflation has continued to decline. The fast decline of inflation during the second half of 1995 was also helped by the zloty's real appreciation (about 9 percent), slow adjustment of energy prices and low food inflation.

Despite Poland's good growth performance, social indicators have been lagging behind.

Unemployment, officially non-existent before 1990, rose rapidly with the recession of 1990-91. It now stands at around 16 percent despite the continuing recovery in output and is far higher in some parts of the country. A recent poverty assessment estimated the number of poor to have increased over the transition, reaching 5.5 million, or 14.4 percent of the population. However, poverty is "shallow" in Poland, meaning that economic growth can rapidly pull many out of poverty. On average, the income of the poor is only 12 to 15 percent less than the minimum pension used to define the poverty line.

Over the medium-term, a clash between demands on public resources and available financing is inevitable unless reform goes more deeply into existing programs, particularly social security which appears to be the core of Poland's fiscal problem. Furthermore, additional resources will be required to eliminate the quasi-fiscal deficits that continue to linger in the enterprise and financial sectors, and to finance the social costs of restructuring programs. Payments on external and domestic debt will absorb an increased portion of expenditures, and more resources will be required to modernize infrastructure and for investment in human capital. However, the 1994 debt and debt-service reduction agreements have significantly improved Poland's credit-worthiness and facilitated increased direct foreign investment in the country. The debt-GDP ratio should decline steadily from 38 percent in 1995 to 35 percent by the year 2000.

Poland rejoined the World Bank in June 1986, after a 36-year hiatus. It joined the International Finance Corporation (IFC) in 1987, the International Development Association (IDA) in 1988, and the Multilateral Investment Guarantee Agency (MIGA) in 1990. Since 1990, when the Bank initiated lending to Poland, cumulative commitments have reached US\$4 billion for 23 projects. These include adjustment operations addressing key reform issues as well as investment loans to support reforms and investments in industry, agriculture, financial sector, infrastructure, environment, energy, social sectors and housing.

POLITICAL OVERVIEW

Poland is organized as a parliamentary democracy according to the so-called "Little Constitution" adopted by the Polish parliament in 1992, pending the passage of a permanent constitution. Poland's parliamentary leaders are now at work on drafting a new constitution which they expected to submit to the Polish electorate in the spring of 1996. Since 1989, Poles have enjoyed largely unfettered rights to free speech, press and assembly as well as other commonly accepted Western human rights.

The parliament is bicameral with elected upper and lower houses. The government enjoys a two thirds majority and generally supports liberal economic policy, emphasizing the importance of softening the harsher effects of economic reforms.

Provincial and local governments can play an important role in facilitating or hindering trade and investment in Poland. Poland is divided into 49 provinces (voivodships) each of which is headed by a provincial governor (voivode) appointed by the central government. There are also independent locally elected city and village governments. Party affiliations play an increasingly important role in local Polish politics, particularly in larger cities.

Poland's political leaders have repeatedly given strong public encouragement to western

investment. There are nevertheless domestic political factors at play which can impinge on Poland's hospitality to foreign investment.

There have been no incidents of politically-motivated violence towards foreign investment projects in recent years. In fact, to ensure its future entry into the EU, the Polish government has taken active political steps to encourage foreign investment. However, the government seeks to regulate foreign investment, only as a means of protecting emerging Polish capital.

Labour unions, the primary agents of the collapse of communism, remain strong, and have occasionally caused problems for foreign investors, especially when investors have instituted changes in management practices in formerly state-owned enterprises. The Polish trade union movement, the engine of communism's collapse in the 1980s, has occasionally been problematic for foreign investors, particularly when managers of newly privatized state enterprises have instituted management changes. Strike activity at Polish coal mines in early 1994 briefly threatened power supplies in some localities, but generally strikes have not threatened or noticeably compromised Poland's industrial infrastructure.

TRADE POLICY

Poland is a member of the Central European Free Trade Agreement (CEFTA) whose members include: Hungary, the Czech Republic, Slovenia and the Slovak Republic. Poland is also a member of the World Trade Association. It has an association agreement with the European Union (EU), the first step to becoming a full a member and is a member of the Eastern European Free Trade Agreement (EFTA). While Poland conducts

60 percent of its total trade with EU nations, its trade deficit is almost entirely attributable to trade with OECD nations.

Canadian exports to Poland totalled \$49 million in 1994, while imports from Poland were \$102 million. Canada's total share of the Polish import market was 0.2 percent.

HOUSING CONDITIONS

Since the end of World War II, Poland has experienced a severe housing shortage. Initially it was expected that the new political system with a free market economy would help in solving the situation, but the shortage continues to worsen. Housing industry statistics show that fewer houses are being built every year. The deterioration of the Polish housing system began when the subsidies ended.

The number of housing units built by private companies increases each year, although figures are not very high. The Polish private sector, which is now starting to influence the market, is not yet financially strong enough to make a significant impact on the overall housing industry.

Wood-frame technology is gaining popularity in Poland. It offers practical solutions for the Polish housing industry, with short completion time and considerably lower costs. Although brick construction historically is preferred in this region, the advantages of wood-frame construction have convinced many Polish developers to explore new approaches.

With the exception of some single-family privately owned homes, virtually all other housing during the Communist-era was owned, operated and constructed by the state. Land and infrastructure were provided for free, and interest rates, rents, maintenance and utilities were heavily subsidized. Reduced labour mobility and housing over-consumption at the end of the family life cycle due to strong tenants' rights including perpetual occupancy (transferable to family members); the right to sublet or exchange flats; the obligation of the building owner to find comparable alternative accommodation for tenants in order to evict them, have all led to housing shortages, particularly in the capital, Warsaw.

Owner-occupied housing forms 41 percent of the stock nationally, although in Warsaw, co-operatives are the predominant housing type. The ratio of households per unit is marginally higher nationally with 1.12, than in Warsaw (1.10), a fact explained by the significant doubling-up of households in major cities (other than Warsaw) across Poland. Table 3 shows housing conditions by tenure type in 1994.

Table 3:
Housing Conditions by Tenure Type, 1994

Tenure Type	Percentage of the Housing Stock	m ² /Person	Persons/Room	Number of Units (000s)	Units in Single-family Buildings (%)	Units in Multi-family Buildings (%)
Public Rental*	25.4	15.6	1.1	2906	0.0	100.0
Warsaw	29.5	NAV	NAV	136.8	0.0	100.0
Private Rental*	5.2	NA	NAV	600	0.0	100.0
Warsaw	NAV	NAV	NAV	NAV	NAV	NAV
Owner-occupied*	41.7	18.9	1.0	4758	91.9	8.1
Warsaw	15.7	NAV	NAV	177.0	NAV	NAV
Other*	27.7	15.0	1.0	3170	NAV	NAV
Warsaw	54.8	NAV	NAV	292.3	NAV	NAV
Total*	100.0	18.2	1.0	—	—	—
Warsaw	100.0	NAV	0.9	—	—	—

NAV – Not Available

* National data.

Source: MRI, 1996

There are considerable differences in the quality of housing between urban and rural areas. Despite the larger household size in rural areas, the average number of persons per room is lower, and gross floor area larger. Housing is better serviced in urban areas where, for example, 77 percent of homes have central heating compared to only 47 percent in rural areas.

Table 4:
Housing Quality Characteristics (Based on a total stock of 11,433,900 units, 1995)

Total urban dwellings per 1,000 inhabitants (1993)	317.6
Total rural dwellings per 1,000 inhabitants (1993)	258.8
Housing units per 1,000 people*	296.0
Warsaw**	372.0
Piped water in % of flats*	84.2
Bath or shower in % of flats*	71.5
Central heating in % of total housing*	50.4
Housing built since 1960 (%)*	57.2
Warsaw**	61.7

* National average, 1994.

** Warsaw, capital city, 1995.

Sources: MRI, 1996; Muziol-Weclawowicz, 1996

While the quantity of substandard housing is significant at 28.5 percent of the housing stock, a great number of dwellings also require substantial renovation. There is no data available addressing tenure type and the quantity of substandard housing. However, it is assumed that the owner-occupied sector has the highest proportion, as in other Central and Eastern European countries. More than 57 percent of the housing has been constructed since 1960, which is similar to other countries in the region. Table 4 shows housing quality characteristics in 1995.

HOUSING SECTOR

Overview

There are significant changes taking place in Poland's housing sector. The state no longer allocates housing, or plays a significant role in maintenance, operations or distribution. Instead, it has downloaded ownership of housing to local governments; at the same time, a private property market is emerging. The withdrawal of state financial support for the sector, the restitution of state-owned housing, and the privatization of construction and building material production facilities, have resulted in fewer restrictions on the market. The means of financing housing have also changed. However, since the private sector share of housing output was relatively small compared to that of the state, the withdrawal of funding has had the effect of depressing production and reducing overall employment in the sector.

Table 5:
Housing Units Completed, 1993-96
(in thousands)

Type of Housing	1993	1994	1995	1996 (est.)
Private	33.4	33.4	34	40
Cooperatives	50.0	27.5	20	25
Enterprises	8.2	2.3	1	-
City Projects	3.6	4.5	5	5
Total	95.2	67.7	60	70

In 1978, it took 13.1 months on average to complete construction. Now the construction cycle is 12 months longer and the average construction time to complete a residential project is 25 months per house and it keeps growing. This adds to the construction costs. It was calculated that a one-month delay increases the cost by about 30 PNZ per m², which is 3-4 percent of the apartment's price.

One cause of delay is lack of financing. Another cause is unreliable construction companies. The market has been controlled by firms not interested in applying efficient organizational methods and

not competing for clients. There were few of them and their services were in high demand.

Construction workers, careless about their work, especially those employed by state-owned companies, acquired a very bad reputation. The market changed, but the characteristics of a construction industry employee did not.

The overall housing unit production dropped by 28 percent in 1994, a trend since 1989. Housing construction, heavily subsidized by the Polish state before 1989, began falling when the subsidies were withdrawn. With little mortgage financing available on the market, the number of completed housing units had to drop. In the 1989-94 period, the most significant drop was in state-funded housing. Private housing construction is slowly picking up. It is expected that in the next several years this type of construction, together with cooperatives should constitute the largest figures in housing unit production. Table 5 shows the number of housing units completed in Poland for the years 1993-96.

In 1994 the average size of a housing unit grew by 10 percent compared to 1993. Living in crowded apartments shared with relatives is typical, especially for young couples. Poles view larger apartments as an important factor in improving living standards. Therefore, the average size of a housing unit will continue to grow.

A few domestic developers, successful on the Polish market, offer wood-frame construction and have successfully completed several housing projects. When asked about reasons for choosing this company, their clients responded that the company has working relations with credit financing organizations which helps buyers get mortgage credit. Also, these developers take care of all administrative procedures for their clients. The developer buys land, takes care of land ownership matters, sales personnel assist clients with legal aspects of the transaction, as well as the client's wishes concerning the house, a concept new for Poland. The total cost of the project equals approximately the value of a high-end apartment.

Relevant Regulatory Systems

The technology of residential construction has undergone rapid changes in Poland in the last few years. The tendency is to move away from pre-fabricated concrete blocks to brick and other technologies (wood-frame housing among them), as illustrated in Table 6.

Now, there are around 2,000 construction firms in Poland involved in residential construction, and about 50 of them, all private, offer wood-frame housing construction or technology.

Table 6:
Houses Built in Poland in Different Technologies (%)

Technology Type	1985	1991	1992	1993
"Large panel"	70.3	61.5	52.1	34.0
Prefab block	15.4	14.1	13.8	14.9
Brick	8.8	16.8	26.2	40.3
Other (including wood-frame)	5.5	7.7	7.9	10.8

Recently, several regulations affecting the housing sector were implemented:

- The Condominium Law allows the conversion of former state housing into condominiums.
- The Building Law is intended to rationalize construction regulatory procedures, reduce "under the table" construction activities, and implement modern technical standards for housing.
- The Land Development Law rationalizes procedures for the allocation of land for building development.
- The Premises Ownership Law clarifies policy in the area of private versus public ownership of housing, and introduces the idea that owners are fully responsible for the costs of maintaining their properties.
- The Tenancy and Housing Subsidies Law reforms rents and rental subsidies for low-income families, increases sanctions against illegal tenants, and reforms eviction procedures.

Other pending legislation will address incentives for the construction of affordable housing, the development of a network of regional building

societies (to administer dedicated housing-related savings schemes), and the renovation and modernization of large housing estates.

The implementation of these housing-related laws will usually be the responsibility of one of the 2,500 local governments in Poland. In addition, this level of government is responsible for implementing regulations in the following areas:

- privatizing all former enterprise housing;
- administering new residential development;
- administering municipal lands slated for housing;
- choosing forms of communal property management;
- cataloguing and privatizing former state property;
- allocating management funds for existing housing; and
- setting property taxes.

All construction, alteration, or demolition of residential buildings requires a building permit from the local government's department of architecture. The department may also issue an opinion about the zoning compliance of a proposed or existing structure. This non-binding opinion often permits a developer to begin construction before all documentation is complete.

Housing as a National Priority

The portion of the housing stock owned by employers (enterprise housing) has been privatized either by selling the units to their occupants; by transferring ownership to owner-occupied co-operative organizations; or to municipalities. Local governments have been in control of privatization policy since 1990, and as a result, there are dramatic differences between cities. Some have taken no action, while others have implemented comprehensive programs complete with instalment payment plans. Privatization is on a right-to-buy unit-by-unit basis for the vast majority of housing. By the end of 1994, less than 400,000 units, or about 11.5 percent of the eligible stock, had been privatized.

Nationally, 3.2 percent of all property in public ownership in 1990, had been restituted to their

former owners or their heirs by 1994, while in Warsaw, restitution occurred for only 1 percent of housing over the same period. Warsaw's situation is particularly difficult, since it seems that many of the properties were seized illegally in 1945, and at present there is no formal legislation on restitution in place. What little restitution has occurred has been on a case-by-case basis, as a result of administrative court decisions. Consequently, there remains a good deal of confusion about the ownership of properties seized during the Second World War by Nazi Germany or subsequently by the Communist regime, as well as the appropriate compensation to owners of properties not returned. Approximately 7,300 hectares of land, and over 14,000 structures, are in dispute in Warsaw alone.

Some subsidies remain in the form of amendments to the personal income tax and value-added tax systems. Utility prices are well below world levels. Rents for existing buildings will not be fully deregulated until the year 2004, although a number of important legal reforms and price restructuring have taken place. In contrast, newly constructed buildings have fully deregulated rents. Since the responsibility for adjusting rents has fallen to municipalities, which have both economic and social objectives, the results of preliminary deregulation have been quite varied. Rents have doubled in some areas, while in others, they have remained relatively unchanged. By 1993, rents on average covered only 30 percent of current maintenance costs. Subsidies, as a result, are still required for even the most basic repairs.

Key Housing Market Institutions

The Ministry of Industry issues business permits for building materials producers in free trade zones, and the Ministry of Finance grants tax relief on foreign building materials entering Poland. Public lands suitable for residential construction are sold by open tender through the Ministry of Land and Construction. The Minister of the Interior grants permission to foreigners interested in purchasing land. The Central Construction Control Office has jurisdiction in many matters over local governments, to ensure that

construction processes are in accordance with the legal regulations.

State of the Local Housing Market

The combined effects of economic recession and the reduction in public and co-operative sector investment in housing have resulted in a decrease in gross investment in the sector from 5.2 to 1.8 percent of GDP. Between 1990-94, government investment declined significantly from US\$431 million, to US\$500,000. The table below shows housing investment in Poland for the period 1990-94.

Table 7:
Housing Investment 1990-94 (US\$ million)

	Public	Co-operative	Private and Institution	Total	Share of GDP
1990	431	15,894	1063	17,388	5.2
1994	0.5	0.7	1.03	1.83	1.8

N.B. Breakdowns on all measurements are not all complete.
Source: MRI, 1996

Although the building industry increased its output by 15 percent, housing construction has declined. Apartment starts (a subset of housing starts) declined to 22,800 units in 1994, while total output was just over 76,000 units. Although the total output by the government and co-operative sectors has declined considerably, new housing construction by private individuals has declined only slightly. In Warsaw, the output by private individuals actually increased, as did the average floor space per unit. The industry shows signs of recovery and the number of building permits issued for single-family homes increased by 8.4 percent in 1994. By the end of 1994, an estimated 460,000 single-family homes (12 percent more than in 1993) were under construction.

Nationally, the decline in production of new units by private individuals has not been as sharp as that experienced in the government and co-operative sectors. In Warsaw, there was a 19-percent increase in co-op completions between 1990 and 1994.

Housing accounted for 35 percent of the construction industry output in 1994, down from 54 percent in 1990, while the private sector construction market share increased to 51 percent in 1995. In 1994, Canadian direct investment in construction was 1.6 percent of the total foreign investment in the sector. Table 8 presents statistics on the number of new housing units by type of developer.

**Table 8:
New Housing Units by Type of Developer**

		1980	1990	1994
National	Government & Co-operatives	161,426	86,803	39,160
	Private Individuals	55,664	47,412	36,920
	Total	217,090	134,215	76,084
Warsaw	Government	939	2	649
	Co-operatives	6,680	2,792	3,453
	Private Individuals	279	349	668
	Total	7,898	3,143	4,770

Source: MRI, 1996

There has been a dramatic decrease in the number of new units constructed per 1,000 population. Although construction costs have remained stable nationally, they have fallen significantly in Warsaw. However, contradictory data suggests that housing construction costs have increased 58 times between 1989-95. Construction costs are difficult to forecast and estimates do not remain valid for long because of high inflation and the uncertainty about the availability and precise cost of building materials. Reported costs in Poland range between US\$300-425 per m². At present, the limited amount of serviced land in and around larger cities is a significant influence on the overall development costs of new housing. Table 9 shows housing production, land and development costs in Poland and in Warsaw.

Housing production has declined over the past three decades. Every year during this period, the net increase in housing units was smaller than the increase in the number of households. The problem is exacerbated by the lack of proper

maintenance of existing buildings (often caused by unclear ownership status) and very limited living space. The average sized apartment is 18 m², which is far below the European standards of 60 m².

The number of housing units completed in the first quarter of 1995 was 15-percent smaller than in 1994. In March 1994 only 4,400 homes were completed, a decrease of more than 13 percent compared to February 1994 and a 35-percent decrease compared to March 1993. A total of 14,200 homes were completed over the first three months of 1994, which is 36 percent below the same time period in the previous year.

Studies show a shortage of 1.6 million housing units in Poland. To reach current European standards (376 units per 1,000 people) by the year 2020, it will be necessary to build 230,000 housing units per year. However, housing construction starts have decreased annually since the 1980s. The cost of one m² of an apartment or house is over twice the average monthly net wages, which means that to purchase a 60 m² apartment, the average buyer will spend ten years' salary.

The units favoured for home ownership and available in Poland can be divided into four categories:

Single-family, Occupant-built Homes: Forty-two percent of all housing is private homes built by their owners who paid cash for all expenses of the construction. This includes all houses/cottages in cities and rural areas. Nearly all of these homes are built with bricks and represent a life's achievement for their owners. In this number there are also city houses built in suburban areas which are symbols of wealth and an unattainable dream for the average Pole.

Cooperatives: Twenty-five percent of all housing is in cooperatives, which build multi-family houses for their members. In the communist era they were financed with long-term loans from state banks, with 90 percent of the interest bought out by the State Treasury. The financial terms of obtaining a cooperative apartment were very favourable, but the waiting period was often very long—15-20 years. Now the number of houses built by cooperatives is quite low. These

**Table 9:
Housing Production, Land and Development Costs**

	New Units Per 1,000 Population			Land Cost ¹	Construction Cost ² per m ²			New Unit Size, m ²		
	1990	1994	%1990/ 1994	1994	1990	1994	%1990/ 1994	1990	1994	%1990/ 1994
Poland	3.5	1.9	54	NAV	302	295	98	77	89	116
Warsaw	NAV	NAV	NAV	14	514	400	78	76.8	81.9	107

NAV – Not Available

1. Defined as the land price as a percentage of the total house price (including land price) for typical newly constructed units.

2. Defined as the present replacement cost (labour, materials, on-site infrastructure, management and contractor profits) in US\$ per m² of a median priced dwelling unit.

Source: MRI, 1996

cooperatives are financed with members' money and usually represent high-end homes.

Public Housing: Twenty percent of housing is public housing. This is the housing stock owned by cities. Mostly built before the Second World War, poorly managed and under-financed for years, they often are low quality and need immediate renovation. The government plans to privatize these housing units by offering them for sale to their current occupants. In January 1995, the Polish government introduced new rents,

reflecting tenant ownership of the property. The apartment owners pay higher rents to cover costs of maintenance and repair. Non-owners' rent remained unchanged. This action is likely to slow down the process of privatization.

Employee Housing: Thirteen percent of housing is owned by state enterprises, as an incentive to attract valuable personnel. Over the years this housing stock has become a burden for the enterprises and now they want "gminas" (local governments) to take over these houses at no cost.

MATERIALS, LABOUR AND FINANCING

Overview

A report from ING Barings says that Poland's building industry is poised to boom with 7 percent real growth for 1996, due to a number of large (non-residential) infrastructure projects. The building industry has undergone considerable changes as a result of the privatization of former state-owned enterprises, and the emergence of a number of smaller firms. From 1989-94, the number of firms increased from 146,000 to 198,000; the number of incorporated construction companies grew from 6,000 to just less than 13,000; the number of companies with foreign capital increased from 71 to over 1,000; and the number of state enterprises decreased from 1,350 to 867.

In contrast to pre-1990 conditions, the industry is now dominated by private sector firms who are responsible for 85 percent of all construction activity, and 70 percent of all employment in the sector. In 1993, the manufacture of goods and services in the building industry amounted to US\$6.7 billion. Ninety percent of construction firms are small family-owned firms with few employees.

Materials

Significant progress has been made in privatizing the building material and construction sectors, and private firms now account for approximately 80 percent of sectoral output. The demand for building materials is expected to grow steadily over the next decade, in direct response to key investment programs. There are a number of large infrastructure programs financed by the World Bank, and the European Bank for Reconstruction and Development (EBRD). Of particular interest are initiatives in housing construction, and energy-retrofitting of existing buildings.

Polish production of forest products is increasing. Recent domestic shortages of good quality wood have led to an increase in wood imports. The Polish domestic plywood industry is large, but cannot produce sufficient low-cost plywood to meet the demand created by housing construction.

In fact, Canadian exports of wood products increased 93 percent between 1993-95, and show further signs of increase in the years ahead. Table 10 shows the Polish production of building materials in 1993.

**Table 10:
Local Production of Building Materials, 1993**

Material	Quantity
Bricks	971 (million)
Lime	2,353 (1,000t)
Sheet Glass	46,280 (m ²)
Steel	9,937 (1,000t)
Sawn Wood	3,480 (1,000 m ³)

Source: United Nations, 1995

The market for building products is growing steadily but not as quickly as the Canadian share of the market. Building materials are a significant part of Canadian exports to Poland. However, the Polish imported building products market is dominated by Germany (28 percent), Italy (16 percent), Belgium (7 percent) and the U.S. (7 percent). Table 11 illustrates the building products market.

**Table 11:
Building Products Market**

	1994	1995 (est.)	1996 (est.)
Total Market Size (US\$ million)	n/a	930	990
Total Local Production (US\$ million)	n/a	1000	980
Total Exports (US\$ million)	462	400	400
Total Imports (US\$ million)	392	410	420
Imports from Canada (\$ million)	2.22	4.69 (actual)	5.8
Canadian Percentage of Market	0.4	0.8 (actual)	1.0

Sources: USEW, 1996; Industry Canada, 1996; CUI, 1996

Labour

While Poland's employment levels stopped declining in 1993 for the first time since 1989, employment in the construction, wood products and housing management sectors continued to rise. Poland has a well-educated work-force that works for relatively low wages. However, while unit costs are attractive, productivity is comparatively low. In addition, a wage control law took effect in January 1995, limiting public sector wage increases. Poland has a large unemployment rate; in Warsaw, Kraków, Poznan and Katowice, it is in the 8-10 percent range.

Financing

As financing is critical for the future development of the housing industry, new systems of financing both for construction companies and buyers have been created by the Polish government with foreign assistance. The Mortgage Fund was created in 1994 and offers loans to Polish citizens. With high inflation, these credits are not yet affordable to all Poles, but the situation should improve gradually.

Personal savings are the primary means of purchasing a house, and although mortgages exist, a survey by the U.S. Department of Commerce of Poles in Gdansk, revealed that less than 50 percent are acquainted with their conditions. A system of dedicated savings accounts for the purchase of housing has existed in Poland for many years; however, the hyper-inflation of the 1980s seriously reduced the value of those savings. Today similar accounts exist, but the deposits are used as security for loans of up to 150 percent of the value of the savings. Personal income tax was introduced in 1992, and included deductions for investment in new housing, and extending or improving existing dwellings. None of these incentives are expected to create a sudden demand for new housing, as economically, housing still remains out of reach for most Poles.

Polish banks generally do not provide credit to developers, since few banks feel qualified to assess lending risks. In addition, many Polish banks are poorly capitalized and cannot afford to extend long-term credit such as mortgages. Short-term interest rates on construction loans, which are determined by the central bank, floated

between 30-40 percent during 1995. In an inflationary climate and with rates this high, banks will extend only short-term credit, otherwise the gap between interest rates and inflation could quickly erode the bank's investment. Although mortgages on residential properties exist, they are problematic since occupants cannot be evicted, unless they are provided with an alternate dwelling.

Dedicated building societies (modelled on the German Bausparkassen), which are financially independent affiliates of licensed banks, will grant mortgages when depositors fulfil their contractual requirements; the incentive is tax deductions for housing banks, and their customers. All income from the bank is then made available for additional loans.

There are no special restrictions on foreign access to financing, although in general, Polish banks will be more receptive to export market oriented projects rather than domestic market oriented projects, and will require proof of solvency, a business plan as well as some form of security. Due to difficulties in accurately assessing the value of real property, most banks will normally grant a mortgage for only 30-50 percent of the value of the property.

Because the purchase of a house is a once-in-a-lifetime event, the means of financing in Poland are also unique. According to the Gdansk survey, Poles who plan to build their own homes in the near future expect to provide a down payment equal to one third or more of the cost of the home. In addition, potential borrowers seem willing to pay monthly instalments on a loan which are higher than the loan requires. This attitude has its roots in the current short-term outlook of many Poles, due perhaps to their history which consists of continuous invasions and domination by neighbouring countries. Long-term perspectives are rare and so long-term financing is not understood or valued.

Savings is the main source of financing a house purchase. Most of respondents who participated in the Gdansk survey who want to buy a house, plan to pay one third of the house value as a down payment, which they estimate at around US\$10,000. The balance will be paid in monthly instalments in Polish currency. Only 50 percent of

those surveyed are acquainted with mortgage loans and the terms under which they are granted.

For nearly half a century the typical Pole was provided housing by the state or a state-owned enterprise. Housing construction financing in Poland was predominantly based on public and community funds (state budget, local budget, enterprises and housing cooperative money). In 1991-93, about 69.5 percent of apartments built were with the use of these funds. Even though the state budget has already withdrawn direct subsidies to construction, it still finances back liabilities (repayment of housing loans granted prior to 1992). Housing cooperatives are heavily in debt to both banks and the state budget.

The current environment has created mortgage financing. A number of new financing options have developed since 1990.

Mortgage Fund

The Mortgage Fund was established with loans from the World Bank (US\$200 million), the European Bank for Reconstruction and Development (US\$67 million) and funds guaranteed by the U.S. Government (US\$25 million) as well as funds provided by the Polish State Budget (US\$200 million equivalent). Overall, a total of US\$425 million is available as loans for both construction financing and the purchase of primary residences. This is projected to create 30,000-60,000 housing units over the next ten years. Although this is a minor number when compared to the need for 230,000 units per year over the next two decades, the program's goal is not to provide everyone with a loan, but rather to establish a housing financing industry, one which will operate on a stand-alone basis after the World Bank funds have been repaid.

The purpose of the Mortgage Fund is to:

- force a departure from the current pattern of financing long-term loans from short-term deposits;
- create a mortgage finance system within the banking system; and
- establish the banking system's responsibility for housing loans.

There are two institutions through which Mortgage Fund credits are available: Bud Bank and the Polish American Mortgage Bank (PAM Bank).

Bud Bank

To implement the program, one banking institution was selected to manage the Mortgage Fund. This institution, Bud Bank, is over 90-percent owned by the Ministry of Construction and the National Bank of Poland (NBP). Bud Bank is facing many challenges. In principle, its job is to lend funds through a network of participating banks throughout the country, which in turn lends the money to housing developers and home purchasers. The problem is that Polish bankers have no experience in underwriting real estate loans. Therefore, Bud Bank must educate banks about real estate financing, attract banks to its program, train the personnel and monitor their transactions.

In the Mortgage Fund program, each participating bank must lend from its fund 20 percent of the construction and 10 percent of the mortgage loan. The remainder is provided by Bud Bank. Thus, participating banks also take part of the risk. The program parameters for a long-term mortgage loan establish:

- a maximum loan amount (75 percent of value or 36 times the household income, whichever is less);
- minimum and maximum initial monthly payment amount (0.8333 percent of loan amount and 25 percent of gross household income maximum); and
- the interest rate charged to the participating bank.

Long-term construction loans are given for a period of 18-24 months maximum and the mortgage loans for 13-17 years. The average interest to be paid on construction loans is 35 percent, and the interest to be paid on the mortgage loan is approximately 36 percent. Beyond these criteria, the participating bank is free to negotiate with the borrower. The Mortgage Fund program through participating banks, covers all of Poland.

In multi-family dwellings this program finances apartments that are up to 110 m², and in

single-family houses up to 180 m². In case of larger apartments the extra costs must be covered by the buyer, not by the credit.

Polish American Mortgage Bank

Another bank that offers building and mortgage credits is the Polish American Mortgage Bank (PAM Bank) in Warsaw. Created in 1992 as the first private bank in Poland it specializes in financing single-family housing construction. The Polish-American Enterprise Fund initiated the opening of this bank. The bank's funds are a joint venture partnership with Wielkopolski Bank Kredytowy and PHZ Polservice. Its starting capital was US\$12 million. It grants credits denominated in U.S. dollars and paid in Polish zlotys. Its interest rates are fixed—building credits granted for one year maximum are 16 percent, and individual mortgage credits granted for 15 years maximum are 12 percent. These credits are linked with the U.S. dollar exchange rate and the borrower takes risks with any changes in the dollar rate.

PAM Bank granted its first loan in 1993. By the end of 1994 the bank approved 229 applications for loans for a total amount of US\$8.9 million. In January 1995 the bank granted loans amounting to US\$1.9 million. The Bank covers 60 percent of the investment, while the developer covers the remaining 40 percent of the cost. The developer must present documents certifying ownership and verifying that there are no mortgage claims associated with the land.

PAM Bank has joined the Mortgage Fund program and also offers credits in Polish zlotys. PAM Bank charges a fee for reviewing the applications of US\$175 for the building loans, and US\$100 for the mortgage loans. The bank also requires that construction work be done by a professional firm.

Law on Financing

In April 1995, the Polish government accepted a proposal on new forms of supporting residential construction. The law provides low-interest loans to people who regularly save money for housing purposes at accounts opened for that purpose at the National Bank of Poland. For Poles who are unable to save, this project also offers inexpensive apartments for rent.

This law will provide for establishing savings accounts with a low interest rate (0.25 to 0.50 percent) for families whose monthly income is higher than 1000 PNZ (approximately US\$440). By saving money through these accounts, families will be able to get loans for housing, up to 150 percent of the savings. For people with lower incomes, this system will provide inexpensive apartments for rent. These apartments will be built and managed by Social Building Associations (Towarzystwa Budownictwa Społecznego), non-profit organizations of developers and managers of affordable housing. They should be cooperating with local governments under supervision of city councils.

Also, this law creates the National Housing Fund, that will give preferential credits to the Social Building Associations and to housing cooperatives. The money the government gives to the Fund will grow through the savings.

While bureaucracy and lack of preparation delay housing development, many say out-dated banking laws are the biggest obstacle to growth in the housing sector. Under current Polish law, mortgage and regular bank loans follow the state when creditors line up to collect in bankruptcy and foreclosure proceedings. If a borrower fails to pay income taxes, even after taking out a loan, the state can seize property ahead of banks. This means there are no secure real estate mortgages in Poland, and most buyers pay for housing out of cash savings.

HOUSING MARKET ACTIVITY, NEED AND DEMAND

Local Housing Activities

The total number of transactions in the property market, including non-residential property, was estimated at 458,000 in 1993, a 4-percent turnover rate, with private transactions accounting for 40 percent of the total. Warsaw is the most expensive city with prices 30-50 percent higher than in other big Polish cities, although Krakow, Gdansk and Poznan are also expensive. Although the volume of transactions has increased in absolute terms, the value of transactions per m² has declined from US\$632 in 1990, to US\$470 by 1994.

While Poland has a general housing shortage, it is more acute in Warsaw. Monthly rental rates in Warsaw range from US\$150 for one-room apartments, to over US\$5000 for centrally-located villas. Rental agreements must be registered at the Notary Office, and stamp duty must be paid.

Housing Need

There are about 12 million households in Poland, averaging 2.5 persons per household. However, there appears to be an absolute shortfall of at least 1.4 million housing units, and this figure does not include the substantial numbers of units which need renovation. A conservative estimate of 27,000 units per year are needed just to keep pace with population growth.

Current housing production has barely kept up with population growth and has not addressed the absolute shortage of housing, especially as the baby boom generation of the 1970s and early 1980s is about to enter the housing market. At present, approximately 50 percent of young couples in urban areas live in shared accommodations, mostly with their parents or spouse's parents.

Although the housing sector has been in a downward trend, it is expected to improve as a result of new financing measures introduced in

1996. The personal income tax system offers tax deductions for investment in housing. However, for many households, the deductions are not a sufficient incentive to spur effective demand.

Early in the transformation process, construction and building material prices were deregulated, rising dramatically while real incomes fell. Real wages fell in Poland during the period from 1989-93, but began to slowly rise in 1994, reaching an average US\$287 per month by 1995. However, high unemployment and the ratio of house-price-to-income continues to limit effective demand. The ratio of average monthly income to the price of one m² of newly constructed dwelling, is estimated as 1:4 and this difference is increasing. While costs per m² for residential construction increased 58 times between 1989-95, average net wages increased 28 times, the consumer price index 38 times, indicating that a newly constructed home is now further out of reach for most Poles.

Table 12:
Housing Costs in the Owner-occupied and Rental Sectors, 1994

	Public Sector Rentals (as a % of average income)			Owner-occupied
	Rent	Utilities	Rent and Utilities	Ratio of house-price-to-income
Poland	1.8	11.1	12.9	3.23
Warsaw	n/a	7.2	n/a	5.48

Source: MRI, 1996

Rent and utility costs consume a relatively small portion of income by Canadian standards. Utilities remain heavily subsidized, although central heating and hot water charges were 500 times higher in 1995 than in 1989. Similarly, gas rates increased 310 times and electricity 154 times. Table 12 shows housing costs in the owner-occupied and rental sectors in 1994.

Factors Affecting the Demand for Housing

Prior to 1989, the majority of Poles obtained housing through a number of ways: their employer, the municipality, or by building their own homes on a build-as-afford basis over a number of years or through a Polish savings system.

This savings system allowed Poles to obtain apartments through housing co-operatives. By depositing nominal amounts of money in special savings accounts known as “Housing Books”, they received a position on a waiting list. A total of 5.5 million people in Poland are members of such housing co-operatives.

The lists did not guarantee the member an apartment, only a long wait. The waiting lists often moved very slowly or did not move at all, while the members continued to contribute monthly to their “Housing Books”. This caused a lot of scepticism towards government initiatives relating to housing and developers.

During the hyper-inflationary years surrounding the fall of communism, the value of the “Housing Books” decreased dramatically. In order to ameliorate the situation, the government has agreed to pay a premium on top of existing savings, under the condition that this money will be used to buy a home. As a condition of the purchase, the buyer must have already purchased the land and contributed 20 percent of the cost of the home prior to any disbursement from the “Housing Book”. Consequently, if a prospective purchaser does not have the down payment, the money in the “Housing Book” is useless.

According to the Gdansk Region Housing Demand Survey, the only detailed survey to date of the public’s perception of housing needs, if Poles are able to buy a new home, they expect to live there for their lifetime. Also, a house is perceived as a shelter, not as an investment. It is a lifetime accomplishment. Poles do not perceive themselves to be mobile, housing availability does not allow the movement of workers to meet job opportunities. Most Poles live and die in the same city, and very often in the same house in which they were born.

EXPORT OPPORTUNITIES AND STRATEGIES

Overview

Foreign housing construction companies presently in the Polish market are from Germany, France, Austria, Finland, Canada, the U.S. and Australia. They offer various products and technologies, including wood-frame technology.

Domestic companies still promote traditional brick housing in Poland. Less cost competitive, they still find clients in Poland because the traditional Polish home has been made of bricks. Many Polish people still believe that only houses made of bricks are solid and safe. With a number of wood-frame technology houses already built in Poland and with strong promotion of this type of building, this belief is gradually changing.

There are very few housing projects in Poland completed by foreign investors. Most foreigners co-operate closely with Polish companies.

The price factor is extremely important in Poland. With an average monthly income of approximately US\$350, most families are not able to purchase housing. Only families with an income 40-percent higher than the average can afford to buy housing.

Poland is the second largest market in Central and Eastern Europe overall, for Canadian building products, and was worth \$9 million between 1993-95. The market grew by 111 percent between 1994-95. Preliminary data seem to indicate that 1996 experienced an even stronger growth.

The strongest growth was in the export of windows and doors, followed by HVAC, and electrical and mechanical components. Only three of the eight categories declined in value between 1994-95. In terms of sheer volume, prefabricated buildings dominate Canada's exports. Canadian firms face strong competition from U.S., German, Italian and Scandinavian firms, although Canada seems particularly strong in the value-added components market and the growth of lumber exports continues. Table 13 shows the value of Canadian building material exports to Poland for the period 1993-95.

Canadian involvement in Poland is diverse. Active Canadian firms are primarily service providers and developers or builders. While there are relatively fewer firms involved in direct export, their sales volumes are good.

Export Opportunities

Approximately 76,000 dwellings were completed during 1994, down sharply from 134,000 in 1990. The growth in effective demand is contingent upon the success of certain economic reforms. As these reforms succeed, and the Polish economy adjusts, there will likely be an accelerated growth in wages and an increase of dual-income families that would spur housing construction and rehabilitation. The long history of housing as an important and secure means of accumulating wealth in Poland means that the market will

Table 13:
Value of Canadian Building Material Exports, 1993-95

	Prefab. Buildings	Wood Products	Doors and Windows	HVAC, Electrical, Mechanical	Roof, Floor and Wall Products	Finishes and Hardware	Misc. Building Products	Tools and Heavy Equipment
1993	1,018,912	415,518	348,668	81,621	8,000	66,359		118,071
1994	1,048,406	437,466	156,655	56,093	11,163	272,465	64,120	176,340
1995	2,802,112	843,056	636,280	179,720	22,000	70,068	12,705	122,583
Total 1993-95	4,869,430	1,696,040	1,141,603	317,434	41,163	408,892	76,825	416,994
% Increase 1994-95	167	93	306	220	97	-74	-80	-30

Source: Industry Canada, 1997

ultimately be stronger once conditions are right. The following are some specific opportunities:

- **Provision of Luxury Housing:** A promising niche market exists in the development of luxury-gate communities on the outskirts of large Polish cities. The type of housing most likely to succeed would be a traditional custom masonry home with a few upgrades such as HVAC, a built-in kitchen and a home security system. The shortage of land in the inner cities makes the suburban fringe the most attractive place to locate gate communities. The intended purchasers are able to pay cash, therefore overcoming the difficulties posed by limited mortgage arrangements.
- **Single-family Home Building Industry:** This sub-sector of the housing market will continue to be characterized by small firms, constructing 20 or fewer homes per year. Canadian firms could do well in Warsaw and other large centres, and although volumes are small, there are indications that profit margins might be higher than in Canada.
- **Privatization of State-Owned Housing and Building Materials Production:** This is a limited opportunity, and the most attractive investments are rapidly disappearing. A key restriction in this sector is that initial investment is limited to a maximum stake of 80 percent in any newly privatized firm.
- **Partial Assembly of Housing Components in Poland:** By shipping partially assembled products such as cabinet components, or window profiles, and doing the final assembly in Poland, many exporters have avoided the customs duties that apply to fully finished products. The reduction in duties allows the sale of the product to price sensitive customers, while retaining a healthy profit margin.
- **Energy Retrofitting of Existing Concrete Highrise Buildings:** There is a tremendous market for improvements in energy efficiency, as Polish energy prices rise to world levels. This market is currently being explored using a “Team Canada” approach. A group of Canadian companies has formed a consortium to provide mutual assistance in identifying projects and securing financing. It is estimated that there are approximately 7,000 buildings suitable for energy-efficient retrofitting. The EBRD and the International Finance Corporation are willing to finance such projects.
- **Manufactured Housing:** Poland is one of the most promising markets for manufactured housing. Prices for a 120 m² house are reported to be in the range of \$60,000-80,000. Single-family housing is generally financially attractive but demand will be limited by inadequate land supply and the high and unpredictable costs of re-zoning or servicing land.
- **Do-It-Yourself Market:** While this is a very promising sub-sector, it is extremely price sensitive. In terms of building materials, the best prospects are in areas such as kitchen cabinets, pre-hung doors, drywall supplies and ceramic tiles, and the small consumer tools required for this type of work, including impact drills, screwdrivers, cordless tools and wrench sets. Another opportunity is in the establishment of retail outlets to serve the do-it-yourself market.
- **Export of Construction Technologies and Building Materials:** There is an immediate need for efficient, modern production technologies to assist in the production of lower-density housing forms. Building materials markets offer growing opportunities but market research is key to identifying specific products in demand. Exporting a wide array of products would be premature. Prices for materials are reportedly similar to Western Europe, although volumes are smaller.

Best Sales Prospects

There are good prospects for building materials and also ready-made houses. The receptivity in Poland is high for Canadian technology, even though it might not be known. Its relatively low costs, short time for construction, and energy saving aspects continue to attract the attention of developers.

Polish partners are interested in all elements—wood frames, insulation, boards,

gypsum panels, siding, and so on—of housing technology and are eager to learn about it.

Renovation services constitute another good opportunity in Poland. The available housing stock, considerably old, needs renovation and this creates a market for companies offering construction services and equipment. It has to be emphasized, however, that the prices of these services and equipment must be low. The funding in this sector is very limited. Second-hand equipment might find a market and also technologies considered already old in Canada would be accepted on the Polish market.

The materials that are potentially the best sales prospects, were chosen by considering a combination of local need and demand, and the Canadian ability to supply them. Some of these products are already available in Poland, but Canadian products may be selling well, or offer a better price or quality. Based on an analysis of current trends, the best prospects are:

- insulating materials and other energy-efficient products;
- prefabricated housing and light-weight structural components (e.g., panel systems);
- dimensional softwood lumber and plywood;
- pre-hung doors, PVC and metal windows, roof windows;
- residential alarms and home security technologies;
- vinyl siding and exterior cladding systems; and
- do-it-yourself products and small consumer tools.

Export Strategies

As distribution and retail networks are not well developed, the best strategy for selling building materials and housing components is to find a good distributor. In Poland, the term “distributor” is understood to mean a variety of wholesalers, manufacturers’ representatives, agents, or commissioned salespeople. Some may deal with a particular sector, or act as the sole agent for a single product. In particular, small to mid-size builders may be suitable agents, both consuming and promoting particular building products within the housing sector.

Joint ventures have also proven successful for many western businesses in Poland. Joint ventures allow the Polish partner access to either current technologies and capital, and allow Canadians access to the local business environment, and to networks of contacts and potential markets. The tradition of cash payment for goods minimizes risk for Canadians.

Given that Poland is Canada’s second largest market for housing and construction products in the Central and Eastern European region, there is considerable potential for an ongoing and expanded role for Canadian exports. Nonetheless, there are several things to bear in mind:

- The business environment is changing rapidly for the better. This fluid environment creates great business opportunities, however, with commensurate risks.
- The attitude towards Canadian products is positive in Poland, and the market for housing-related products is growing as a result.
- There is less transparency in the business, legal and regulatory environments than in Canada and the best way to evaluate risk is to work closely with business experts operating in Poland. Many international business and consulting firms offer risk assessment services, market surveys and expert legal counsel for Canadian exporters.

Trade Shows

There are nearly 50 trade events presenting construction materials and house building technologies in Poland a year. Many of them have been organized for the first time and, although planned as international events, will present only a couple of foreign companies.

There are two major events offering the best opportunities for Canadian firms to promote their products. Both are organized annually.

BUDMA—International Construction Fair, January. Contact: Poznan International Fair ul Tel.: (011-48-61) 66-43-14 Fax: (011-48-61) 66-58-27

HOUSEBUILDING—International Housing Fair, September. Contact: Gdansk International Fair ul Tel.: (011-48-58) 52-46-90 Fax: (011-48-58) 52-21-68

BUSINESS ENVIRONMENT

Overview

The Polish economy has experienced tremendous growth over the last few years, with 4-5 percent annual growth predicted over the short-term. Other economic indicators, including balance of payments and unemployment, continue to improve. One important negative factor is inflation which hovers around 30 percent annually.

Despite Poland's impressive economic growth and demographics, there remain a number of concerns for Canadian companies doing business or investing in Poland. Canadian imports in many categories face significantly higher customs duties than their competitors from the European Union (EU). This also affects investors, as it adds cost to imported capital goods used in production.

Canadian companies doing business in Poland face strong European competition. Poland's domestic industry continues to develop and become more competitive. For the foreseeable future, Poland will be a net importer of manufactured goods, particularly those that will help it develop and generate world-class exports.

Poland is one of the most attractive countries in the Central and Eastern European region for export or investment. Poland has achieved excellent results in terms of re-structuring and privatization, banking reform, and foreign investment. The volume trade with Canada and receptivity to Canadian products are also positive factors.

The government guarantees the internal convertibility of the zloty. All foreign companies earnings in hard currency are required by law, to be exchanged into zloty on receipt. However, foreign entities are fully entitled to purchase foreign currency in order to repatriate profits.

Communications, banking, accounting, and distribution systems are still developing in Poland. Companies establishing branch offices find office space and housing in short supply and very expensive—class A office space rents are similar to those in Geneva. There is a shortage of personnel with training and experience,

particularly in the finance, marketing, and human resources fields. Well-trained engineers, technical specialists, and skilled labour are, however, abundantly available.

Poland's banking system is being restructured, and banks now set their own lending and deposit rates. In general, however, banking and accounting services are still inefficient by world standards. Interest rates on loans to Polish businesses are relatively high. The foreign banks and accounting firms that currently operate in Warsaw have greatly helped to alleviate these problems.

The road and rail networks in Poland are relatively extensive, and Poland's air and sea ports are structurally adequate for receiving and shipping cargo. However, all are in need of expansion and modernization to facilitate the growth of Poland's economy. Airport cargo modernization is underway, and a restructuring of the rail system is under examination. Rural road travel is difficult and particularly dangerous at night in Poland. There is a lack of adequate four-lane highways between major cities capable of carrying the increased volume of trucks necessary to the growth of Poland's distribution systems. An extensive road network upgrade is planned over the next 10-15 years.

There are no visa requirements for Canadians travelling to Poland for business purposes of up to 90 days. Business visitors on temporary duty are required to obtain a work permit if they will be in Poland longer.

The principal problem encountered by visitors to Poland is property crime. Pick pocketing, hotel break-ins, and car theft are common, particularly in areas of heavy tourist activity. Visitors are advised to pay particularly close attention to their belongings while in airports and railway stations, as well as on trains. Violent crime remains rare but is growing.

Business Customs

It is customary to greet by shaking hands in Poland. A business woman should not be surprised if a Polish man kisses her hand upon introduction, at subsequent meetings or saying goodbye. North

American men are not expected to kiss a Polish woman's hand but may simply shake hands.

Business cards are the norm in Poland and are generally given to each person present at a meeting. As Poles tend to bring more than one person to their meetings, visitors should bring plenty of business cards. It is not necessary to have cards printed in Polish.

Business attire is generally formal, including a suit and tie for men, and a suit or dress for women. Casual wear, including jeans, is suitable for informal occasions, but more formal dress is usually customary for visiting or entertaining in the evening. Flowers, always in an odd number, are the most common gift among friends and acquaintances. Sunday is the traditional day for visiting family and friends in Poland.

One Saturday per month is, by custom, considered a working Saturday, but there is no consistency among institutions or exact observance as such. Poland operates on the same time zone as continental Western Europe. Business hours are generally from 8:00 a.m. to 4:00 p.m.

The following public holidays are observed in Poland:

**Table 14:
Holidays**

January 1	New Year's Day
March/April (variable)	Easter Monday
May 1	Labour Day
May 3	Constitution Day
late May/early June	Corpus Christi
August 15	Feast of the Assumption
November 1	All Saints' Day
November 11	Independence Day
December 25-26	Christmas

Business Infrastructure

Transportation by air to and from Poland is excellent. International carriers fly to Poland many times per day from all over the world, and Polish Airlines LOT has direct flights to Warsaw from Montreal.

Transportation within Poland is convenient. Airplanes and trains are an efficient means of transportation. Rental cars are abundant, but due to significantly increased traffic over the past few years and a highway system that has not been maintained, driving between Polish cities, especially at night, can be quite dangerous.

First-class business hotels are available in most major Polish cities, and many are located in the heart of business districts. Some major western hotels offer air-conditioned rooms and direct dial telephone capability from rooms. Many hotels offer a business centre with computers, business assistance services, and fax capability. Almost all business hotels take major credit cards. Charges and room rates are seasonal and competitive, and business travellers are advised to check and confirm rates at hotels in advance of their travel.

Telephoning to and from Poland is much easier today than just a few years ago. Stentor's Canada Direct calls can be placed from Poland. Direct dial around the world is possible and often more expedient than placing local calls across town. The Polish telephone system in many areas is still rotary dial, making it difficult to link-up and use some modern telephone services in North America. Fax capabilities are generally very good based upon the quality of the sending or receiving signal.

Poland uses the metric system of weights and measures. Electrical appliances are 200 volts AC, 50Hz, with continental (two prong) outlets.

Poland has an extensive road network totalling 367,000 km including 235,247 km of paved road, and 257 km of expressway. US\$6 billion worth of improvements in the road network (or 2,500 km of new roads) are planned over the next 10-15 years. There are 3,997 km of navigable rivers and canals, as well as major shipping ports located in Gdansk, Gdynia and Szczecin. Minor shipping ports are located in Gliwice, Kolobrzeg, Swinoujscie, Ustka, Warsaw and Wroclaw. In 1993, Poland's ports handled 50 million tonnes of cargo. Railroads total 25,528 km in standard and narrow gauges including 11,496 km of electric railway. There are 8 major airports, and 126 smaller airports; the national air carrier LOT carries more

than 2 million passengers per year. Natural gas and petroleum pipelines total 6,946 km.

Distribution and Sales Channels

Distribution networks do exist in Poland, although most are new and vary in their structure and scope. For consumer goods most have been pieced together over the past few years and are product specific with differing layers of agents, wholesalers or retailers. Regulations on developing sales and distribution networks do not exist beyond those needed to establish a business.

From the small company to the large multinational, many foreign firms still find it necessary to create their own distribution networks for their products in Poland. Labour and warehousing are abundant, and trucks are available. But, experience and practice in modern and efficient methods of distribution are still limited.

Smaller foreign companies usually begin with a small, regionally located distributor and then develop a network from there. Larger firms may initially establish a regional warehouse system with a series of trucks and distributors to attack assorted markets across the country—a significant up-front investment.

Poland is without a doubt a regional market. Not only is the population very spread out between Poland's major cities, but poor road conditions and inadequate local train service, bad local telephone communications, under-developed banking networks, and the still developing nature of the market itself make it difficult for one distributor (and extremely difficult for a foreign-based distributor) to cover all of Poland.

Imports of equipment and technology are also increasing, as Polish industry modernizes and restructures to compete with the Western world. What has been surprising to Canadian exporters in many industrial sectors is the familiarity among Poles with the technical parameters of their products prior to the actual introduction of those products on the marketplace. This is a combination of historical knowledge of some importers (who probably worked for a former foreign trade organization before 1989), and the

fact that serious Polish importers do their homework.

Under the communist regime, all foreign trade was handled through a small number of foreign trade organizations; each industry was associated with an entity which handled its importing, exporting, marketing and distribution needs. Most of these organizations still exist in one form or another, some have even been privatized. Now industrial distributors may be a part of a network that developed from former foreign trade organizations, or as lone rangers, with significant connections to their industry. As industries and companies continue to privatize in Poland, distribution networks will expand in scope and complexity.

As with consumer goods, importers and other companies that represent foreign companies are becoming more sophisticated, and selective. Polish agents or distributors increasingly look to the foreign partner to provide marketing and promotion support, training, and financing.

Imports of western consumer goods are still strong, although the previous insatiable demand for western goods has been replaced by more pragmatic attitudes about price and quality. Consumers as well as importers are more hesitant about the products they will buy.

Poland is still a cash economy. Banks are starting to issue credit cards but their use is extremely limited. Cheques are almost unheard of. Most payments for regular transactions are made by wire transfer, if not by cash. Few automatic teller machines exist in Poland.

The distribution system for building materials in Poland is not well defined. Companies that deal with distribution are developing slowly, and in most cases they are not yet prepared to purchase products in large quantities from abroad. They first find buyers for products and usually want to work on a commission basis. Many distributors are small and medium businesses which have recently been formed by entrepreneurs who left jobs at large state-owned enterprises. They have knowledge of the market and a network of contacts, an asset gained while working for their state enterprise.

Those who start small, with no capital, gradually develop into financially well-established

entrepreneurs that seek new clients. Often they get exclusive rights for one, preferably well-known, manufacturer and work on establishing that company's presence on the Polish market.

In the housing industry, developers and real estate agents are often the best contacts as distributors. The development of a real estate market is one of the major changes that occurred on the Polish market in the last 5 years. Now there are over 1,000 real estate agencies operating in Poland.

Some of them cover the whole country. Most transactions of buying or selling houses and apartments are handled by these agencies.

Professional developers are new to this market and they are limited in number. Few of them offer finished housing. In most cases they encourage potential clients to join a housing project and participate in financing. Also housing cooperatives act in a similar way and they are successful in accomplishing their projects.

To find a distributor it is useful to visit trade events featuring the housing/building/construction industry. There are many such events in Poland; some are large international events, and some are more local shows where local industry representatives promote their products. It is worthwhile to visit the events to get acquainted with various company representatives before making final decision. Catalogues of the events serve as the best source of updated information.

Local housing and construction magazines can also be helpful in finding potential distributors. "MURATOR", a monthly magazine, is recently becoming more popular among house builders and buyers. It specializes in the promotion of wood-frame houses and can serve as a good source of information.

Finding a Partner

The word "distributor" is somewhat generic in Poland, often meaning any type of a Polish representative who will sell a product as a wholesaler, manufacturer's representative, or agent. A Polish distributor may take on one or many of these roles, and act as importer and lead representative for the product in Poland.

By nature, a foreign company seeking to find a distributor in a developing foreign market like Poland generally hopes to find one who is experienced, knowledgeable, and well connected to existing lines of distribution for the product.

Increasingly, foreign companies are finding small, private Polish business owners who may need the product themselves for their business to be good candidates for distributors. In other cases, Polish companies in one line of business, for example a construction firm, may take on a product or act as a distributor for a product entirely different from their line of specialty, in order to generate additional income for their construction business.

Many business clubs and associations have been created in Poland, with thousands of company members. These are excellent sources for potential business partners.

Joint Ventures and Licensing

Joint ventures as a form of business are abundant in Poland, including those between Polish and western partners. Many U.S. exporters and sales relationships in Poland are in the form of joint ventures with Polish companies set up to handle the trade and share in the risks and rewards. As such, the joint venture, if feasible, is an excellent way to facilitate the export sales on the Polish market.

Joint ventures allow Polish partners access to increased capital, new products and services, and potential exports to world markets that they would not have on their own with limited working capital and expensive credit. The foreign partner gains access to the Polish market and openings into the local government and local business environment that would take years to develop.

Licensing of products, technology, technical data, and services has for the most part not been practiced in Poland, especially by North American firms. However, now that Poland has made major steps in intellectual property rights, it is probable that many Canadian firms will begin to license their products in Poland.

Establishing an Office

Besides joint ventures, Canadian companies may establish representative offices in Poland through three types of arrangements:

- Representative or branch offices are allowed to engage in business activity, including trade and the import of goods for sale in Poland. These offices should be fully funded by the Canadian parent company and cannot derive separate income from their activities. They are by law treated as parts of the Canadian company, and not separate legal entities.
- Limited liability companies (sp. z.o.o.) require at least one founder, minimum capital of 4,000 zloty (currently about US\$1,700) paid before registration. Reserves do not have to be taken out of after-tax earnings, audits are only obligatory in certain situations, and assets cannot be distributed until six months after liquidation is announced.
- Joint stock companies (S.A.) require 100,000 zlotys (about US\$42,000), 25 percent to be paid prior to registration, for a joint stock company. There are no maximum limits and in-kind contributions are exempt from customs duty. Post-tax profits from the venture may be exchanged and repatriated (at the end of each fiscal year of the venture) without subsequent permission. Proceeds from the sale of shares in the venture, or liquidation of the venture, may also be repatriated. Twelve months must pass after liquidation announcement before assets may be distributed. Polish law does not allow interim dividends.

Prices for premium office space are very expensive by world standards, and leases are generally quoted per m², per month. The current range is between US\$25-80 per m² per month in Warsaw. Making sure the office has telephone connections is still important in Poland. However, modern telephones, copy machines, faxes, computers, and office amenities are easily available and can be leased from a number of reputable Polish and western firms. The secretarial labour pool is reasonably abundant, and an English speaking secretary with modest secretarial skills is easily found. Employees with western management or accounting experience are difficult to find, as all western firms are dipping into the same limited labour pool.

Heavy income taxes (20-45 percent) and Polish Social Security (ZUS in Polish) packages (48.5 percent of the employee's salary) for Polish

personnel are by law the responsibility of the employing company, and foreign companies in Poland are treated as Polish entities. Expatriates who live and work in Poland for longer than six months (183 days) in one taxable year are treated as residents for tax and social benefits purposes.

Selling Factors and Techniques

The Polish market is in most cases regional which applies to selling as well. In addition, people in cities, particularly the major cities in Poland, have more purchasing power than those in rural areas, as unemployment is significantly lower in the cities. The countryside is dotted with single-factory (or formerly single-factory) towns with high unemployment.

Letters, faxes, and packages of product literature will introduce a Polish company to a product or service. The Polish language is recommended for speediest response. Polish customers generally will not consider making a final purchase until they have met with someone face-to-face about the product. Demonstrations of the product are also effective, as Poles tend to be sceptical about claims until they are proven. The decision-making process, especially in large companies or government agencies, can be painfully slow, as every person or section involved in a decision usually must sign off before a decision is made.

This underscores the fact that in order to be successful in Poland, a Canadian company must have a representative in-country, whether it is an agent, distributor, or representative office. The Polish customers will want to discuss the technical parameters of the product, explain their needs, and negotiate the price. In addition, the product may not be sold in the first meeting, as the customer will want some time to further consider the points discussed, and try to arrange financing. Small, single first orders are usually the result, as major initial orders are unlikely due to limited amounts of working capital and high rates of interest on credit.

A Canadian exporter should be aware of a Polish customer's main problem which is access to capital. With inflation running at about 30 percent per year, bank loans are out of the question; most Polish firms are still too small to consider going public or issuing commercial paper. Therefore, most business activities, including payment for

imports, are self-financed. Canadian companies that can guide their Polish customers to affordable financing, such as through the Export Development Corporation (EDC), will have an edge over their competitors.

Polish customers are generally enthusiastic about North American products and, if seriously interested, will travel across the country to meet with a Canadian representative who may be visiting Warsaw. This is an important point and should be recognized. If a customer has driven five hours from Krakow to Warsaw to meet with a Canadian company, the potential for a sale is good. If the proposal is well thought out, the pricing is flexible (or assistance with locating financing is offered), promotion, servicing and customer support is part of the package, chances are good that a contract will ultimately be written. Doing business in Poland is built upon personal relationships and trust.

Advertising and Trade Promotion

The trade fair business in Poland has boomed over the past few years, from a single major event (the June Poznan International Fair) to a year-long schedule of industry and product specific events in major cities around the country. Most industry specific trade fairs in Poland are new and still proving their worth. Some are better than others at attracting key Polish and international business. Fairs in building products have grown in popularity over recent years.

Print media advertising is increasingly sophisticated as the print media market itself has grown to include a full range of publications. Poland is wholly literate. Major newspapers circulate throughout the country and reach every corner of Poland. In addition, new special interest magazines, business journals, niche publications, and specialized newspapers have proliferated.

The best advertising value for housing-related products is to be found in the various trade magazines and product catalogues:

- Murator magazine has a circulation of 60,000 architects, manufacturers and wholesalers of building materials;
- Materialy Budowlane (Construction Materials) focusses on the technical aspects of building,

and is aimed at building technicians and engineers;

- Polish Building Market is an English language publication concerned with the Polish building industry, firms and relevant industry policy changes; and
- The Building Catalogue is a helpful listing of products available and certified for use in Poland; good for marketing as well as market research.

Major international advertising and public relations agencies abound in Poland. They can assist with the wide variety of advertising mechanisms now available, including product displays on billboards and buses, and sophisticated electronic displays. In addition, many specialize in developing promotional venues for products or business start-ups.

Pricing Products

Pricing is the key to effectively selling a foreign product in Poland. Working capital is limited in Poland even among the larger, more successful Polish companies. Polish businesses generally spend money wisely, after thoughtful and sometimes significant consideration.

Pricing foreign products is complicated by the additional import duties, customs duties, and value-added tax that elevate prices dramatically.

Flexibility is the key, and initial market penetration to gain product knowledge among Polish consumers is the goal. Successful exporters work together with their Polish representatives to keep costs, particularly import costs, as low as possible (for example, some companies ship products unassembled when it results in lower duties). The Polish market for all kinds of products is huge and expanding, and Canadian companies that approach the market with a long-term view of creating market share for their products will reap rewards.

Sales Service and Customer Support

After price, service is second on the list of the Polish customer's concerns. Distance is the main consideration for a Polish distributor and customer. A potential customer may shy away

from a Canadian product only because of a fear of ineffective servicing, simply due to distance.

Sending spare parts to Poland is easy to do. Some firms provide service for their exports to Poland through European representatives or firms licensed to repair their products. Even then some distributors worry that they may not get adequate service and support.

The ideal method is to provide service and customer support through a trained Polish representative or an affiliate company. Canadian manufacturers with major export accounts in Poland may wish to periodically send a service representative to Poland to work with the local representative and visit customers.

Selling to the Government

Poland's new public procurement law went into effect in January 1995. As of January 1, 1996, local governments have become subject to the law. The government estimates the new law applies to over \$4 billion in public expenditures annually. The law applies to most acquisitions of goods, services, or construction by nearly all government agencies, including local governments, foundations, associations, and cooperatives.

The law requires formal announcements for tenders exceeding 20,000 ECU (about US\$25,000). The law prefers unlimited tendering and restricts other procedures. Tender documents must contain specifications, selection criteria and terms and conditions for the contract. Deadlines for the submission of offers must be at least six weeks from the announcement. Offers are publicly opened. Participation in tenders is open to all those legally, technically, and financially able to perform the contract (including foreign companies, if applicable).

The law also created the Bulletin of Public Procurement (Biuletyn Zomowien Publicnych), which is now published twice a week. Subscriptions are available through Wydział Wydawnictw i Poligrafii Gospodarstwo Pomocnicze Urzędu Rady Ministrów, U. Powsinska 69/71, 09-903 Warszawa, POLAND.

Protecting Your Intellectual Property

Intellectual property regimes are in place in Poland and appear to be less of a concern for Canadian companies. Foreigners, both resident and non-resident in Poland, benefit from intellectual property ownership rights, whether as a result of Polish law or bilateral agreements. Poland is a signatory to a number of international IPR conventions, including the Berne and Paris conventions as well as the World Institute for Protection of Intellectual Property (WIPO).

The Polish Law on Inventive Activities protects inventions through patents and utility models. Applications are filed with the Polish Patent Office; foreign applications must be represented by Polish attorneys. Patents are granted based on novelty, non-obviousness, technical character and applicability. Applications are published 18 months from the application or priority date. Patents are valid 20 years from the filing date. Utilities mode protection is valid for 5 years and may be extended for another 5 years. Annual fees must be paid for maintaining a patent. There are no regulations regarding licence terms. Criminal penalties are possible for infringement.

Poland's trademark law of 1985 stipulates that trademarks, service marks, or collective marks may be registered. A trademark must define the goods and services that are to be marked by the registered trademark.

Applications are filed with the Polish Patent Office, and priority under the Paris Convention may be claimed. Foreign applicants must be represented by Polish patent agents. A registered trademark is valid for 10 years from the date of filing, unless the mark is not used for 3 consecutive years. The registration may be renewed for 10-year periods. Trademarks may be licensed. Ornamental designs and integrated circuits are protected. Protection of trade sector technological secrets is protected by the law regarding protection against unfair competition.

Need for Local Legal Assistance

The legal environment in Poland is constantly changing. In general, Polish law offices follow these changes closely, which may be critical to a Canadian company doing business in Poland. This is particularly true when bidding on a major

project, forming a joint venture, or untangling a trade dispute. Most Polish law firms offer business counselling in addition to legal advice. Some are even experienced in helping their contacts find Polish business partners, investments, or projects to pursue.

A Canadian exporter new to the Polish market may not initially need specialized legal, accounting, or consulting advice as he or she pursues potential partners. He or she can, however, take comfort in knowing that expert advice is abundant and available to them in Poland.

Regulatory Issues

There are very few formal trade barriers (e.g., import quotas or import bans) in Poland. Many categories of North American products face tariff disadvantages compared to European competitors. Some products require an import permit from the Ministry of Industry or other government agencies. Informal barriers, in the form of safety or other standards, exist as well.

Similarly, very few formal investment barriers exist; foreign companies can establish subsidiaries or acquire equity, or form joint ventures with Polish entities. There are no requirements for minimum contribution or participation of foreign equity, although there are some areas where foreign participation is limited or banned. A permit is required for the management of seaports and airports; real estate agencies or services; defence-related industries; wholesale trade in imported consumer goods; or where a state-owned enterprise makes an in-kind contribution, as a part of itself, to the venture or leases its property for a period of more than six months.

Informal barriers, such as contradictory decisions on the part of governmental agencies and a lack of follow-through on decisions that are made, bank credit restrictions, unreliable and arbitrary interpretations of customs regulations, limitations on the purchase of real estate by foreigners and limitations on tax breaks, also exist.

Legal Forms of Business Entities: Most restrictions on foreign investment were abolished in 1991. Legal forms of business entity include joint ventures, representative or branch offices of a foreign parent company, limited liability company

(minimum investment approximately 4,000 zloty), and joint stock companies. Joint stock companies have a minimum investment requirement of 100,000 zloty with no maximum contribution limits, and in-kind contributions are exempt from customs duty. Post-tax profits may be freely exchanged and repatriated. Real estate agencies must obtain licences from the Department of Companies with Foreign Investment. Companies incorporated abroad and conducting business abroad, must hold a Polish bank account.

Investment Incentives: Poland's hope of eventually joining the EU, influences much of its trade and economic policy in terms of developing industrial free trade, harmonizing standards and legislation, and developing economic co-operation. In turn, the EU's guidance to Poland should create a generally positive climate for foreign investors. The Foreign Investment Act of 1991, established a level playing field between foreign and domestic investors. There is no screening of foreign investments. There are in most cases, no special minimum investment requirements or minimum percentage of ownership requirements, that apply to foreign companies; the only requirements are those that apply to all companies whether foreign or domestic. The exception is for newly privatized state enterprises, which are limited to an initial 80-percent foreign ownership.

Taxation: Corporate taxation is 40 percent, and value-added tax (VAT) is 22 percent; income tax ranges from 20-45 percent. Property tax is assessed by the local governments in addition to certain service fees. There is a double taxation agreement between Canada and Poland that sets out the following withholding rates: 15 percent on dividends or interest income, and 10 percent on royalties. Construction activity is taxed at 4 percent of gross turnover plus VAT, although preferential rates can sometimes be negotiated. There are a number of tax incentives offered by the Polish government. Automatic tax holidays for new foreign investments have been replaced with a system that encourages foreign investment. There is duty-free importation of assets which form part of the capital of a company with foreign participation. Local and foreign companies may qualify for tax deductions of up to 25 percent, if they have a gross profit of 8 percent or higher and

a minimum capital investment of 2 million ECU. Companies which also have the majority of their profits derived from exports, may apply for higher deductions. Companies which establish in regions of high unemployment may receive a 50-percent tax deduction on certain investments. The government offers specific taxation incentives in both the construction and building materials sectors. The VAT is equal to 0 for specific building materials; all other materials are taxed at 22 percent. Construction materials manufacturers qualify for a tax exemption based on the percentage increase in their annual sales since 1988. The incentive is calculated as follows: if annual sales have increased by 25 percent since 1988, an exemption is available for as much as a 25 percent increase in taxable income.

Repatriation of Profits and Capital: Profits can be repatriated as guaranteed under Polish law, including repatriation through bonds and securities. Company profits are freely transferable in either zloty or hard currency, provided that the foreign company or individual presents the necessary documentation to a Polish commercial bank. Foreign currency earnings from exports must be converted into zloty, and held in zloty accounts. A general licence system allows foreign investors to repatriate capital and profits. Foreign exchange permits are required only for the purchase of goods and services for personal use. Capital can be repatriated six months after liquidation is announced for limited liability companies, and twelve months after liquidation for joint stock companies.

Real Estate: Foreigners are allowed to own or perpetually lease property in Poland, but require a formal permit from the Ministry of Internal Affairs; permits are issued in most cases. Non-farm real estate may be purchased outright. A proposed law will allow foreigners to purchase housing units without permits; foreign companies could purchase 0.4 hectares of urban land, or up to 1 hectare in rural areas without permits. Real estate tax is payable to the local government, and there have been no real estate expropriations since 1990.

Exporting: Poland is a member of the World Trade Organization (WTO), and the General Agreement on Tariffs and Trade (GATT). Consequently, there are no quota limits placed on the import of Canadian goods. Importing into Poland is relatively straightforward; import documentation called a "Single Administrative Document" is all that is required to import most housing products. The document contains a customs declaration, a certificate of origin, and a form with 60 questions about the goods, their origin, the method of payment, and the value of goods. Exporters should check with the Polish Embassy, whether their product requires import certification before shipping. Canadian exporters often ask for cash in advance until they have established a track record with new customers. Canada's Export Development Corporation (EDC) can provide medium- and long-term financing to qualified foreign buyers of Canadian goods and services, and short-term export insurance when dealing with terms other than cash in advance. The EDC has not established any lines of credit with private banks in Poland. The EDC also rates the export risks as good, although it notes that experience is limited. Another widely used method of payment for Canadian exports is the irrevocable letter of credit (l/c). Polish banks require the importer to deposit the full amount of funds prior to issuing a l/c, so there is virtually no risk for the Canadian exporter. Letters of credit are open for a period of time to cover shipping and inspection, and are paid out within a week of receipt of the goods. Other methods involve a partial certified cheque, or a cash down payment and partial l/c.

Customs Duties: Imported goods are subject to customs duties in compliance with the Harmonized Tariff System; however, exported goods are not subject to customs duties. There is duty free importation of assets that form part of the capital of a company with foreign participation. The duty on building products is generally 12 percent, although individual products carry a higher duty. Table 15 illustrates import tariffs on various housing products.

Table 15:
Import Tariffs on Housing Products

Item	Tariff (% of value)
Wood and Wood Products	13.0
Bricks	13.0
Ceramic Products (e.g., bathwares)	13.0
Metal Products	18.9
Insulation Material	15.0
Prefabricated Construction Elements	20.0
Structural Steel Components	18.9
Aluminum Products	13.0
Manufactured Housing	17.2

Source: USDOC, 1995

An import tax of 3 percent applies to all imported goods. A valued-added tax (VAT) of 0, 7 or 22 percent, depending on the product, also applies to the customs value of imported goods. The Polish government can assess an import tariff to goods deemed to have been dumped at a sub-market price, in Poland. Similarly, an import tax may be suspended or lowered by the authorities, on a particular item. In summary, duties should be investigated on a product basis, as there are overlapping regulations. Legislation was proposed to allow 16 separate duty free zones in areas of high structural unemployment. Currently, there are 4 zones all of which are not operational. Two are on Poland's eastern border, one is at Warsaw's international airport, and one is in the south of the country. The legislation proposes a complete tax holiday for the first 5 years, and reduced taxes for the next 4 years. No VAT will apply within the zones.

Product Certification: The Testing and Certification Act, and the Standardization Act, authorize testing institutes to administer compulsory product certification standards. Poland has about 400 compulsory standards with respect to building materials and products. These compulsory standards include ISO 9000 standards. Many building materials being sold or used in construction works, must possess the Polish safety certificate "mark B" that can be issued by the Polish Centre for Research and Certification. The

list of products that require certification changes frequently, and because of inadequate product safety and liability legislation, more and more products are required to be safety certified before they can be imported. A list of materials and products requiring certification is available from the Building Information Centre. Occasionally, the European "C" Mark designation on a product will be accepted in Poland. Information on the prices for certifying products is often inconsistent, and certification times vary widely depending on the nature of the product.

Polish Construction Regulations

Polish Construction Law was recently adapted to reflect changes brought by market economy. Among other things the new law simplifies application for construction permit giving more authority to local administration. It also allows for demolishing of constructions erected without a permit. No cases of practical application of this law have been reported yet.

Construction Permit: It is necessary to have construction permits to start building a house in Poland. Local authorities issue the permit. It is important to know that under Polish law, land is classified. If zoned for agriculture, then it is not possible to build anything there. Changing the classification is a long and complicated process, especially discouraging for foreign companies.

Building Permit: An investor must apply for a Building Permit. The application is filed with the local authorities. The Project Documentation file must comply with environmental projects and local authorities' requirements concerning development of the land. It also includes proof that the investor is legally entitled to build on the land—ownership of the land. The Building Permit authorizes the investor to start the project. Also, much of the land outside the cities has no infrastructure. Adding sewerage systems, electricity, and water might add over 30 percent or more to the overall cost as opposed to 10-15 percent in North America.

Purchase Land: Foreigners must receive an additional permit from the Ministry of Interior to purchase land in Poland. In most cases such permits are issued. With these many obstacles within the Polish laws and regulations, the best approach for a foreign company interested in this

market is to find a reliable developer and to introduce the product in cooperation with the developer. Local developers are aware of the availability of land, they know the administrative procedures and know the marketing techniques effective in this region. However, the number of developers in Poland is very limited. Only a small number of these developers have the experience and financial capabilities to be accepted by a foreign partner.

Polish Standardization System: Before December 1993, Polish Standards (PN) and Sector Standards (BN) were compulsory in Poland. Lack of compliance with these regulations was forbidden by law. The Standardization Law of 1993 says that application of standards is voluntary. However, the Minister of Construction can decide that PN or BN standards affecting life and health protection, safety of works, and environmental protection must be compulsory. Polish standards are the only binding standards in Poland.

There are two types of technical standards in Poland:

- 400 obligatory standards applicable for construction works, materials and equipment, prepared and issued by the Polish Standardization Committee and executed by a Minister's decree; and
- 1500 non-obligatory standards.

The Standardization Committee reviewed them and adopted them to the European Union standards. ISO 9000 series standards have been included. These standards are referred to in case of disputes. A technical approval is required in case of introduction of a new building material or technology. Appropriate authorized institutions issue the approval. Applications for the technical approval should include:

- technical description of the product specifying its qualities and the name of the foreign manufacturer and exporter;
- application range of the product, how it should be used, stored and transported;
- technical certificates issued on the product by appropriate foreign institutions of the country of origin;

- certificate issued by the Urban Hygiene Office on the influence this product has over the health of humans and animals; and
- other documents on research done on the product by foreign research institutes with a list of projects where this product was used.

Safety Certificates: Recently, Poland has introduced new Safety Certificates ("B" Certificates) required for practically all products sold in Poland. Construction products must first receive the technical approval before an application is filed for the "B" Certificate.

The Polish Centre for Testing and Certification (PCBC) is the supervising office for certification, and has authorized 19 institutes to conduct tests and issue "B" Certificates for various groups of products.

Prefabricated concrete elements, interior walls elements, roofing elements, and elements for stair-cases are tested by CEBET, the Research Development Centre for Concrete Industry. Construction equipment and machinery, underground tunnelling machinery and equipment, equipment for use in building foundations, in transporting and pouring of cement, hydraulic pumps and equipment, spray guns, vibrators, and so on are tested by the Mining and Construction Mechanization Institute, IMBIGS.

Companies that do not comply with the certification requirement, or which manufacture and market a product at a variance with what was certified, may be fined as much as 100 percent of the value of the products sold. An average fee for registration of products is about US\$700.

Customs Duties: All products are subject to customs duty, 5-percent import tax (based on the commodity's value plus the customs duty value), and value-added tax (VAT) (based on the commodity's value plus the customs duty value plus the import tax value). The VAT for building products is 12 percent.

Customs duties are as follows for the following groups of products used in the housing industry:

- wood and wood products, such as windows, doors (13 percent), stone and stone products (13 percent), bricks (13 percent), ceramic products, such as washing basins (13 percent), metal products, such as pipes, heaters

(18.9 percent), steel constructions (18.9 percent), aluminium products (13 percent), and prefab homes (17.2 percent).

- Commodities brought from the EU are subject to a considerably lower customs duty. The difference is from 2.6-7 percent. This makes these products very competitive vis-à-vis Canadian products.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).

These issues should be taken into consideration when assessing financial risk in Poland:

- Economic recovery continued in 1996 for its fifth straight year. Real GDP growth in 1996 was forecast at around 5.5 percent. The forces underlying economic growth have shifted in the past two years, with consumption and foreign direct investment rather than exports sustaining growth. Therefore, Poland still remains one of Europe's fastest-growing economies despite sluggish growth in Western European export markets and rising real value of the zloty.
- Inflation has proven difficult to bring down, despite tighter monetary policy and moves to slow the depreciation of the zloty. The resiliency of inflation is partly a result of high inflation expectations in the economy. Authorities are reluctant to increase interest rates, as this might result in even stronger capital inflows.
- Although the official trade accounts show a substantial trade and current account deficit, these are easily offset by large inflows of foreign currency from the kantor market, a market for foreign exchange exclusively in the form of bank notes resulting from border trade. These inflows result in a sizeable surplus of the (adjusted) current account. The capital account is also in surplus, partly as a result of the debt and debt service reduction operation that occurred in 1994. Consequently, the overall external sector shows a significant surplus.
- In July 1996, Poland's mass privatization program (MPP) leapt ahead with the start of trading on the Warsaw stock exchange in the coupons that entitle Poles to shares in the 15 investment funds set up the previous year. The move is a prelude to the flotation of the funds on the bourse in 1997. The 15 million Poles who have already taken up their coupons at a nominal price of 20 zlotys will be able to exchange them for shares in the funds, which manage 512 formerly state-owned companies.
- Poland's recently acquired OECD membership is expected to further boost confidence in an already strong growing economy. The French government recently pledged support for Poland's entry into the European Union (EU) by the year 2000. This statement brings France into line with Germany on the issue of EU enlargement. It is not clear how the French will address some of the concerns they previously expressed over Poland's entry, like Polish agricultural and steel exports into the EU.

The overall collection experience in Poland is satisfactory. There is a trend towards more open trading terms. There are no credit or financial issues.

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CONTACTS

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Housing Export Centre

700 Montreal Road
Ottawa, Ontario K1A 0P7

Tel.: 1-800-465-6212 or
(613) 748-2000
Fax: (613) 748-2302

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International Trade (DFAIT)

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Ottawa, Ontario K1A 0G2

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Fax: (613) 995-8756

Canadian Commercial Corporation
(CCC)

50 O'Connor Street, 11th Floor
Ottawa, Ontario K1A 0S6

Tel.: (613) 996-0034
Fax: (613) 995-2121

Canadian Embassy

Ulica Jana Matejki 1/5
00-481 Warsaw, Republic of Poland

Tel.: (011-48-22) 29-80-51
Fax: (011-48-22) 29-64-57

International Trade Centres

Newfoundland

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P.O. Box 8950
Atlantic Place
215 Water Street
Suite 504
St. John's, NF A1B 3R9

Tel.: (709) 772-5511
Fax: (709) 772-5093

Prince Edward Island

International Trade Centre
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134 Kent Street
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Charlottetown, PE C1A 7M8

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Fax: (902) 566-7450

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International Trade Centre
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Unit 103
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Seventh Floor
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Fax: (514) 283-8794

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London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

Multilateral Organizations

World Bank	Washington, D.C. 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, D.C. 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726

Business and Professional Organizations in Canada

Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, ON K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218
Polish Chambers of Commerce of Quebec	3478 St. Dominic Street Montreal, PQ H2X 2X4	Tel.: (514) 843-3895

Canadian Banks with International Offices

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Canadian Imperial Bank of Commerce European Operations Office	Cottons Centre Cottons Lane London, SE1 2QL, England	Tel.: (011-441-71) 234-6000
National Bank of Canada Europe Regional Office	Princes House 95 Gresham Street London, England EC2V 7LU	
Royal Bank of Canada AG	P.O. Box 71 07 14 Lyonner Strasse 15 60497 Frankfurt am Main, Germany	
The Toronto-Dominion Bank	Triton Court 14/18 Finsbury Square London, England EC2A 1DB	
Hongkong Bank of Canada	10 Lower Thames Street P.O. Box 506 London, England EC3R 6AE	

Polish Government Offices in Canada

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Polish Institutional Support for Housing Importers

The Ministry of Land Use and Construction	ul. Wspolna 2 00-926 Warsaw, Poland	Tel.: (011-48-22) 661-8111 Fax: (011-48-22) 628-5887 or (011-48-22) 295-389
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The Ministry of Finance	ul. Swietokrzyska 12 00-916 Warsaw, Poland	Tel.: (011-48-22) 694-5555 Fax: (011-48-22) 266-352
The Ministry of Industry	ul. Wspolna 2/4 00-926 Warsaw, Poland	Tel.: (011-48-2) 628-0694 or (011-48-2) 661-8111 Fax: (011-48-2) 628-1758
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The Ministry of Privatization	ul. Krucza 36 00-522 Warsaw, Poland	Tel.: (011-48-2) 628-9531 Fax: (011-48-2) 628-0872
The Central Construction Control Office	ul. Krucza 38/42 00-512 Warsaw, Poland	Tel.: (011-48-2) 661-8010 Fax: (011-48-2) 661-8142

Polish Institutional Support for Housing Importers (cont'd)

The Polish Centre for Research and Certification Polskie Centrum Bada i Certyfikacji (PCBC)	ul. Kobucka 23a 02-699 Warsaw, Poland	Tel.: (011-48-22) 43-00-59 Fax: (011-48-22) 47-12-22
The Institute of Building Technology in Warsaw	ul. Filtrowa 1 00-950 Warsaw, Poland	Tel.: (011-48-22) 25-04-71 Fax: (011-48-22) 25-13-03
The State Foreign Investment Agency	Aleja Roz 2 00-559 Warsaw, Poland	Tel.: (011-48-22) 295-717 Fax: (011-48-22) 621-8427
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The National Chamber of Construction	ul. Wierzbowa 9/11 00-094 Warsaw, Poland	Tel./Fax: (011-48-22) 273 924
The Building Information Centre	ul. Senatorska 27 00-950 Warsaw, Poland	Tel.: (011-48-22) 27-02-06 Fax: (011-48-22) 27-99-67

Publishers

Publisher of Construction Catalog Centralny Ośrodek Informacji Budownictwa ul. Senatorska	27 00-099 Warsaw, Poland	Tel.: (011-48-22) 40-57-01 Fax: (011-48-22) 40-42-28
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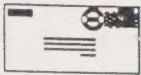
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					3	
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SOURCE (How did you hear about the product?) TV AD <input type="checkbox"/> <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> <input type="checkbox"/> OTHER	Subtotal Column 3		A	Subtotal Column 5	
U.S. AND INTERNATIONAL ORDERS Please pay subtotal C in U.S. Funds (do not add GST or PST)	SHIPPING CHOICE ADD Shipping & Handling Regular Mail <input type="checkbox"/> Courier <input type="checkbox"/>		B	Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount. SEE EXAMPLE ON REVERSE	
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Total (Add E + F)		G			

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3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
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NHA 8003	Brasil	1	35.-	35.-	3	3
NHA 8009	Western Europe	2	23.-	46.-	3	6
					3	
					3	
SOURCE <small>(How did you hear about the product?)</small>		Subtotal Column 3 A 81.-			Subtotal Column 5	9
TV AD <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> OTHER		SHIPPING CHOICE Regular Mail <input checked="" type="checkbox"/> Courier <input type="checkbox"/> ADD Shipping & Handling B 6.18			Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.	
		Subtotal (Add A + B) C 87.18				
		Registration #100756428 ADD GST (7% of subtotal C) D 6.10				
		Subtotal (Add C + D) E 93.28				
U.S. AND INTERNATIONAL ORDERS <small>Please pay subtotal C in U.S. Funds (do not add GST or PST)</small>		Quebec residents add PST (6.5% of Subtotal E) F -				
		Total (Add E + F) G 93.28				

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